

**REPORT OF THE AUDIT OF THE  
MASON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MASON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Mason County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

- The County's cash balance as of June 30, 2003 was \$4,551,078, which represents an increase of \$138,858 over the cash balance as of June 30, 2002.
- Operating revenue decreased by \$202,690 from the prior year, and budgeted expenditures decreased by \$1,141,493 during the same period.

#### **Debt Obligations:**

- Total bonded debt principal as of June 30, 2003, was \$6,795,000. Future collections of \$10,500,541 are needed over the next twenty-four years to pay all bonded debt principal and interest.
- Capital lease principal agreements totaled \$1,122,820 as of June 30, 2003. Future principal and interest payments of \$1,283,009 are needed over the next eight years to meet these obligations.
- Outstanding principal on notes totaled \$155,025 as of June 30, 2003. These notes are payable over the next seventeen years.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable James L. "Buddy" Gallenstein, Mason County Judge/Executive

Members of the Mason County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Mason County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows - proprietary fund type for the year then ended. These financial statements are the responsibility of the Mason County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Mason County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Mason County, Kentucky, as of June 30, 2003, the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable James L. "Buddy" Gallenstein, Mason County Judge/Executive  
Members of the Mason County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2004, on our consideration of Mason County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Mason County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004



MASON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

James L. "Buddy" Gallenstein	County Judge/Executive
Patrick McKay, IV	Commissioner
F. J. Finn	Commissioner
Donald Turney	Commissioner

**Other Elected Officials:**

John Estill	County Attorney
Robert Tribby	Jailer
Frances Cotterill	County Clerk
Edward Tolle	Circuit Court Clerk
Tony Wenz	Sheriff
Betty Hester	Property Valuation Administrator
Robert Brothers	Coroner

**Appointed Personnel:**

Peggy Heflin	County Treasurer
Kim Muse	Finance Officer
Amanda Kimbler	Payroll Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

MASON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 2,408,128	\$ 1,398,817	\$ 182,301
Investments			495,800
Total Assets	<u>\$ 2,408,128</u>	<u>\$ 1,398,817</u>	<u>\$ 678,101</u>
<u>Other Resources</u>			
Amounts to be Provided in Future Years for:	\$	\$	\$
Note Payments			155,026
Capital Leases	184,000	938,820	
Bond Payments			6,116,899
Total Other Resources	<u>\$ 184,000</u>	<u>\$ 938,820</u>	<u>\$ 6,271,925</u>
Total Assets and Other Resources	<u><u>\$ 2,592,128</u></u>	<u><u>\$ 2,337,637</u></u>	<u><u>\$ 6,950,026</u></u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)	
	Primary Government	
<u>Enterprise</u>		
\$ 66,032	\$ 4,055,278	
	495,800	
\$ 66,032	\$ 4,551,078	
\$	\$	
	155,026	
	1,122,820	
	6,116,899	
\$ 0	\$ 7,394,745	
\$ 66,032	\$ 11,945,823	

The accompanying notes are an integral part of the financial statements.

MASON COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2003  
 (Continued)

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 5)	\$ 184,000	\$ 938,820	\$
Bonds: (Note 4A, B)			
Series 1998 - Refunding			1,275,000
Series 1998 - First Mortgage			5,520,000
Notes Payable (Note 4C, D)			155,026
Payroll Liabilities	28,882		
Christmas Withholding Payable	12,572		
Total Liabilities	<u>\$ 225,454</u>	<u>\$ 938,820</u>	<u>\$ 6,950,026</u>
<u>Equity</u>			
Retained Earnings:			
Restricted	\$	\$	\$
Fund Balances:			
Reserved (Note 6)		735,344	
Unreserved	2,366,674	663,473	
Total Equity	<u>\$ 2,366,674</u>	<u>\$ 1,398,817</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 2,592,128</u></u>	<u><u>\$ 2,337,637</u></u>	<u><u>\$ 6,950,026</u></u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Primary Government
<u>Enterprise</u>	
\$	\$ 1,122,820
	1,275,000
	5,520,000
	155,026
	28,882
	<u>12,572</u>
<u>\$ 0</u>	<u>\$ 8,114,300</u>
\$ 66,032	\$ 66,032
	735,344
	<u>3,030,147</u>
<u>\$ 66,032</u>	<u>\$ 3,831,523</u>
<u>\$ 66,032</u>	<u>\$ 11,945,823</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

MASON COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,199,816	\$ 998,651	\$ 1,037,916	\$ 395,873
Other Financing Sources:				
Transfers In	18,036		450,000	
Borrowed Money				
Kentucky Advance Revenue Program	951,500			
Lease-Purchase Proceeds				
Total Cash Receipts	<u>\$ 3,169,352</u>	<u>\$ 998,651</u>	<u>\$ 1,487,916</u>	<u>\$ 395,873</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,734,493	\$ 895,555	\$ 1,312,796	\$ 547,359
Expenditures -				
Public Properties Corporation				
Other Financing Uses:				
Transfers Out	559,256		169,349	10,847
Bonds:				
Principal Paid				
Interest Paid				
Capital Leases - Principal		22,000		6,000
Notes - Principal				
Kentucky Advance Revenue Program Repaid	951,500			
Total Cash Disbursements	<u>\$ 3,245,249</u>	<u>\$ 917,555</u>	<u>\$ 1,482,145</u>	<u>\$ 564,206</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (75,897)	\$ 81,096	\$ 5,771	\$ (168,333)
Cash Balance - July 1, 2002	1,721,310	363,720	103,092	332,079
Voided Prior Year Checks			3,837	
Cash Balance - June 30, 2003	<u>\$ 1,645,413</u>	<u>\$ 444,816</u>	<u>\$ 112,700</u>	<u>\$ 163,746</u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Special Revenue Fund Type			Debt Service Fund Type	
Federal Grants Fund	Solid Waste Fund	Landfill Fund	Public Properties Corporation Fund	Totals (Memorandum Only)
\$ 18,036	\$ 294,063	\$ 1,346,861	\$ 355,494	\$ 6,646,710
55,245	20,000		214,207	757,488
				951,500
<u>\$ 73,281</u>	<u>\$ 314,063</u>	<u>\$ 1,346,861</u>	<u>\$ 569,701</u>	<u>\$ 8,355,698</u>
\$ 55,245	\$ 212,327	\$ 1,098,532	\$	\$ 5,856,307
			3,256	3,256
18,036				757,488
			235,000	235,000
			343,900	343,900
		98,437		126,437
			7,595	7,595
				951,500
<u>\$ 73,281</u>	<u>\$ 212,327</u>	<u>\$ 1,196,969</u>	<u>\$ 589,751</u>	<u>\$ 8,281,483</u>
\$	\$ 101,736	\$ 149,892	\$ (20,050)	\$ 74,215
	40,839	1,106,351	698,151	4,365,542
				3,837
<u>\$ 0</u>	<u>\$ 142,575</u>	<u>\$ 1,256,243</u>	<u>\$ 678,101</u>	<u>\$ 4,443,594</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE



MASON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 293,445
Total Cash Receipts	\$ 293,445
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 274,091
Total Cash Disbursements	\$ 274,091
Excess of Cash Receipts Over Cash Disbursements	\$ 19,354
Cash Balance - July 1, 2002	46,678
Cash Balance - June 30, 2003	\$ 66,032

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE



MASON COUNTY  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmates	\$ 293,054
Interest Received on Bank Account	391
Payments to Suppliers	(83,069)
Payments to Employees	(4,400)
Other Payments	<u>(186,622)</u>
Net Cash Provided By Operating Activities	<u>\$ 19,354</u>
Net Increase in Cash	\$ 19,354
Cash and Cash Equivalents - Beginning	<u>46,678</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 66,032</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 19,354
Net Changes in Assets and Liabilities:	<u>0</u>
Net Cash Provided by Operating Activities	<u><u>\$ 19,354</u></u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Mason County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Mason County Public Properties Corporation as part of the reporting entity.

Mason County Public Properties Corporation:

The Mason County Public Properties Corporation cannot be sued in its own name without recourse to the Mason County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Mason County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Mason County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Mason County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Mason County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Mason County Special Revenue Fund Type includes the following county funds: Federal Grants Fund, Solid Waste Fund, and the Landfill Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Mason County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Mason County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Mason County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100 percent level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Vanguard Treasury Money Market	\$ 100,635	\$	\$	\$ 100,635	\$ 100,635
U.S. Treasury Bills	395,165			395,165	395,165
Totals	<u>\$ 495,800</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 495,800</u>	<u>\$ 495,800</u>

Note 4. Long-Term Debt

- a) In February 1998, the Mason County Public Properties Corporation issued \$1,880,000 first mortgage refunding revenue bonds for the purpose of paying the outstanding principal and interest of the Mason County, Kentucky Public Properties Corporation first mortgage revenue bonds, Series 1991 (the "prior bonds") through and including June 1, 2001, and redeeming the prior bonds on June 1, 2001. Principal payments are due each year on June 1, in the amounts indicated below. Interest on the bonds is payable each June 1, and December 1. The total principal balance was \$1,275,000 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 58,275	\$ 120,000
2005	52,875	125,000
2006	47,250	130,000
2007	41,400	130,000
2008	35,420	140,000
2009-2012	74,290	630,000
Totals	<u>\$ 309,510</u>	<u>\$ 1,275,000</u>



MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Long-Term Debt (Continued)

- b) In May 1998, the Mason County Public Properties Corporation issued \$5,970,000 first mortgage revenue bonds in order to construct a new court facility. The principal payments are due each year on March 1, in the amounts indicated below. Interest on the bonds is payable each September 1, and March 1. The total principal balance was \$5,520,000 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 274,240	\$ 125,000
2005	268,116	130,000
2006	261,746	140,000
2007	254,885	145,000
2008	247,780	150,000
2009-2013	1,120,565	870,000
2014-2018	884,800	1,105,000
2019-2023	578,750	1,425,000
2024-2027	183,250	1,430,000
Totals	<u>\$ 4,074,132</u>	<u>\$ 5,520,000</u>

- c) In March 1999, the Mason County Public Properties Corporation entered into a note with Kentucky Housing Corporation, for rehabilitation of housing for the elderly. The note was for \$135,366 with an interest rate of 2.00 percent per annum. Principal and interest are to be repaid in twenty equal, consecutive annual installments of \$8,279, commencing on July 1, 2000, and continuing annually thereafter on the first day of July until the maturity date on July 1, 2019. The total principal balance was \$118,316 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,367	\$ 5,912
2005	2,248	6,031
2006	2,128	6,151
2007	2,004	6,274
2008	1,879	6,400
2009-2013	7,423	33,970
2014-2018	3,887	37,505
2019-2020	483	16,073
Totals	<u>\$ 22,419</u>	<u>\$ 118,316</u>

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Long-Term Debt (Continued)

- d) In December 1998, the Mason County Public Properties Corporation entered into a note with Buffalo Trace Area Development District, for rehabilitation of housing for the elderly. The note was for \$42,000 with an interest rate of 2.00 percent per annum. Principal and interest are to be repaid in twenty equal, consecutive annual installments of \$2,569, commencing on September 30, 2000, and continuing annually thereafter on the 30th of September until the maturity date on September 30, 2019. The total principal balance was \$36,709 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	735	\$ 1,834
2005	698	1,871
2006	661	1,908
2007	622	1,946
2008	583	1,986
2009-2013	2,303	10,540
2014-2018	1,206	11,637
2019-2020	150	4,987
Totals	\$ 6,958	\$ 36,709

Note 5. Capital Lease Agreements

- a) In June 1996, Mason County entered into a \$1,500,000 lease agreement with Fifth Third Bank for landfill construction. The agreement requires a semi-annual payment of \$74,906, which includes 5.67 percent interest through and including June 1, 2001, and thereafter for each succeeding five year period at a rate equal to the five-year interest rate for U.S. Treasury Obligations, as published by the lessor's treasury department, plus 227 basis points multiplied by .65, as calculated on June 1, 2001, and June 1, 2006. It is to be paid in full, June 1, 2011. The principal balance of the agreement was \$938,820 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 37,335	\$ 112,476
2005	28,992	120,819
2006	24,554	125,257
2007	19,954	129,858
2008	15,222	134,589
2009-2011	15,931	315,821
Totals	\$ 141,988	\$ 938,820

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Capital Lease Agreements (Continued)

- b) Mason County (the "County") entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT), for waterlines in the Buffalo Trail Water Association (the "Association"). The County became the lessor and the Association the lessee, with the County being the pass-through entity for the lease agreement. The Association makes the required monthly payments to the County and the County remits payments to Bank One. The original lease was for \$85,000, with monthly interest payments due at 5.624 percent, and annual principal payments in various amounts due January 22 for fifteen (15) years, to be paid in full February 1, 2010. The total principal balance of the agreement was \$47,000 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,492	\$ 6,000
2005	2,156	6,000
2006	1,820	6,000
2007	1,461	7,000
2008	1,069	7,000
2009-2011	938	15,000
Totals	<u>\$ 9,936</u>	<u>\$ 47,000</u>

- c) Mason County entered into a lease purchase agreement with National City Bank on March 22, 2001 for the purchase of a dump truck and bulldozer. The lease is for \$115,000 at 4.34 percent interest rate. Interest payments are due semi-annually. Principal payments of varying amounts are due annually on November 20. The lease is to be paid in full November 20, 2005. The principal balance was \$72,000 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,626	\$ 23,000
2005	1,606	24,000
2006	543	25,000
Totals	<u>\$ 4,775</u>	<u>\$ 72,000</u>

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Capital Lease Agreements (Continued)

- d) Mason County entered into a lease agreement with Kentucky Area Development Districts Financing Trust on January 2, 2003 for the purchase of a dump truck. The lease is for \$65,000 at a variable interest rate. Interest payments are due semi-annually with the first payment due December 1, 2003. Principal payments are due annually on December 1. The principal balance was \$65,000 as of June 30, 2003.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 1,690	\$ 15,000
2005	923	15,000
2006	637	15,000
2007	240	20,000
Totals	<u>\$ 3,490</u>	<u>\$ 65,000</u>

Note 6. Landfill Closure and Post Closure Costs

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have detailed written estimate, in current dollars the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan.

Through an interlocal agreement with the City of Maysville, the Mason County Fiscal Court manages the operation and accounts for the Maysville-Mason County Landfill. The landfill consists of two landfill cells

- a) The "old" 21.5-acre residual cell was capped in fiscal years ending 2001/2002 for \$1,318,033. Kentucky regulators approved the construction certification on August 8, 2002. The post closure period will expire two years from this date and the thirty-year closure care period will begin. Post closure care costs are estimated at \$8,840 a year for the thirty-year period.
- b) The "new" 41.0-acre contained cell has been operational since January 30, 1997. As of January 12, 2004 (survey date), 13 percent of this cell's capacity had been used with an estimated remaining life of approximately 49.07 years (17,909 days). The estimated closure cost for this cell is \$4,363,500 with estimated post closure costs of \$23,000 a year for a period of thirty years.

Mason County is required to collect and segregate 15 percent of gross receipts of the landfill and account for it in a restricted Landfill Closure Fund. The balance maintained for the landfill closure as of June 30, 2003, was \$735,344. The City of Maysville and Mason County Fiscal Court will jointly fund post closure costs.

The estimates above are based on information as of audit date and can be altered based on inflation/deflation, technology, and laws and regulations.

MASON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 7. Related Party Transaction

During fiscal year ending June 30, 2003, the Mason County Fiscal Court conducted business with Colonial Heights Veterinary Clinic for services to the animal shelter. The County Judge/Executive's son-in-law is a licensed veterinarian and owner of Colonial Heights Veterinary Clinic. During fiscal year ending June 30, 2003, the fiscal court paid a total of \$5,299 to Colonial Heights Veterinary Clinic. In September 2002, this related party transaction was presented to the Mason County Ethics Committee and they found no breach of the Mason County Code of Ethics.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Mason County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





MASON COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,081,397	\$ 2,199,816	\$ 118,419
Road and Bridge Fund	937,755	998,651	60,896
Jail Fund	941,300	1,037,916	96,616
Local Government Economic Assistance Fund	592,100	395,873	(196,227)
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	375,648	18,036	(357,612)
Solid Waste Fund	277,750	294,063	16,313
Landfill Fund	<u>1,462,761</u>	<u>1,346,861</u>	<u>(115,900)</u>
Totals	<u>\$ 6,668,711</u>	<u>\$ 6,291,216</u>	<u>\$ (377,495)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,668,711
Add: Budgeted Prior Year Surplus			3,667,391
Less: Other Financing Uses			<u>(340,644)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,995,458</u>

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SCHEDULE OF OPERATING REVENUE



MASON COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPES</u>				
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 1,737,154	\$	\$	\$ 1,737,154
In Lieu Tax Payments	38,255			38,255
Excess Fees	84,283			84,283
Licenses and Permits	10,232	1,509		11,741
Intergovernmental Revenues	2,382,114	55,943		2,438,057
Charges for Services	68,813	1,295,722		1,364,535
Miscellaneous Revenues	273,300	293,337	345,432	912,069
Interest Earned	38,105	12,449	10,062	60,616
Total Operating Revenue	<u>\$ 4,632,256</u>	<u>\$ 1,658,960</u>	<u>\$ 355,494</u>	<u>\$ 6,646,710</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





MASON COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,391,178	\$ 1,238,321	\$ 152,857
Protection to Persons and Property	1,265,246	1,127,492	137,754
General Health and Sanitation	222,971	78,949	144,022
Social Services	38,900	26,401	12,499
Recreation and Culture	119,000	111,048	7,952
Roads	1,019,600	811,502	208,098
Airports	8,000	8,000	
Bus Services	25,000	16,465	8,535
Debt Service	20,386	7,939	12,447
Capital Projects	150,000	58,317	91,683
Administration	2,395,265	1,005,769	1,389,496
Total Operating Budget - General Fund Type	\$ 6,655,546	\$ 4,490,203	\$ 2,165,343
Other Financing Uses:			
Transfers to Public Properties			
Corporation Fund	214,207	214,207	
Capital Lease Agreements- Principal	28,000	28,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 6,897,753</u>	<u>\$ 4,732,410</u>	<u>\$ 2,165,343</u>

MASON COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 1,240,306	\$ 1,013,240	\$ 227,066
Debt Service	63,563	51,375	12,188
Capital Projects	640,648	102,764	537,884
Administration	1,395,395	198,725	1,196,670
Total Operating Budget - Special Revenue Fund Type	\$ 3,339,912	\$ 1,366,104	\$ 1,973,808
Other Financing Uses:			
Capital Lease Agreements- Principal	98,437	98,437	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 3,438,349	\$ 1,464,541	\$ 1,973,808

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James L. "Buddy" Gallenstein, Mason County Judge/Executive  
Members of the Mason County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Mason County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mason County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 14, 2004

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MASON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

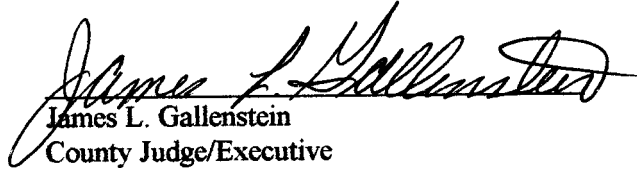


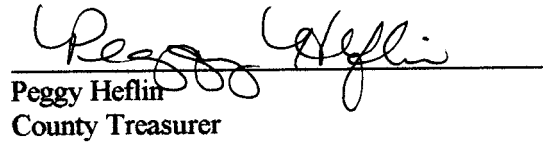


**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MASON COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2003

The Mason County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
James L. Gallenstein  
County Judge/Executive

  
Peggy Heflin  
County Treasurer



